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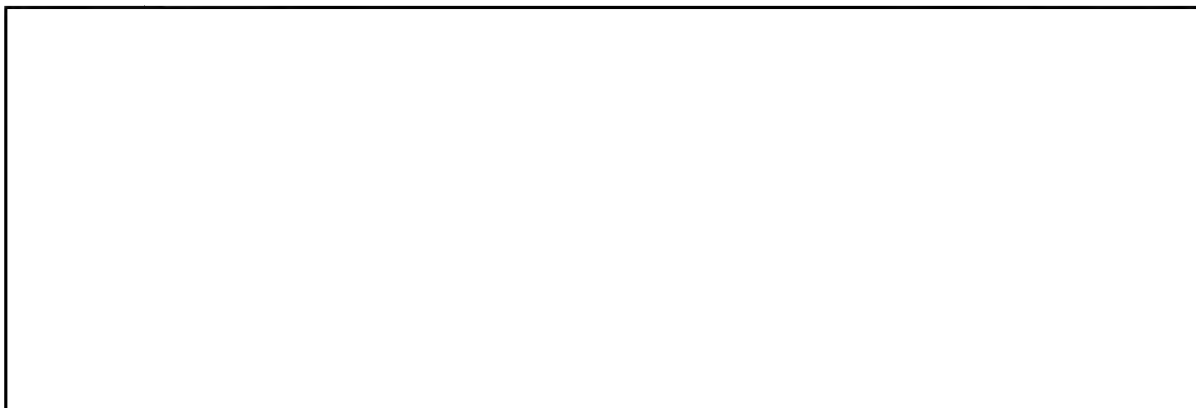
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Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY



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NEAR EAST

3. Current outlook for Iranian oil negotiations unfavorable:

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US Ambassador Grady reports that he has pointed out to Iranian Prime Minister Mossadeq that the presentation of ultimatums to the British will make effective discussion with them impossible. He urged Mossadeq to reconsider his present course of action, to halt the provocative acts of government representatives at Abadan and to attempt to seek an agreement with the British within the principle of nationalization. Mossadeq replied that he had never contemplated talks with the British except within the framework of the nationalization law.

The Department of State, in suggesting that Ambassador Grady stress to the Shah the dangers inherent in the current Iranian attitude, characterizes the present Iranian position as not only unreasonable but designed to remove all hope of negotiation except on terms of complete capitulation.

According to the British Embassy in Tehran, the Iranians have demanded the company's funds deposited in Iran, amounting to approximately 300 million rials (roughly \$8 to 9 million), and have announced that the several thousand British, Indian and Pakistani contract laborers of the "ex-AIOC" are now on contract to the Iranian Government. The UK Foreign Office is drawing up a request to the International Court of Justice for "interim measures of protection" against these and other Iranian interferences.

Comment: The Iranian attempt to implement the section of the nationalization law calling for the transfer to the Iranian Government of 75 percent of AIOC revenue earned since 20 March can hardly be acceptable to the British, who have recognized the principle of nationalization but consider the Iranian nationalization law both "illegal and unworkable." The Iranians, having refused to submit the oil dispute to the International Court of Justice, will not be dissuaded from action by UK requests to the Court for protection. A further unfavorable factor is the possibility that the tensions being created in the oil area by anti-British propaganda might result in violence, and thus close the door to a negotiated settlement.

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EASTERN EUROPE

4. US Embassy in Prague recommends retaliation in plane incident:

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US Ambassador Briggs in Prague notes that repeated Embassy efforts have failed to obtain information from the Czechoslovak Government regarding the two US planes that presumably

landed in Czechoslovakia last week, and recommends early retaliatory action. Briggs fears that the pilots are being subjected to pressure tactics and may even be tried for espionage. In order to demonstrate the seriousness with which the US views this incident, he recommends that (a) US authorities in Germany intercept and impound two Czechoslovak commercial planes overflying the US Zone, or (b) the US immediately cancel Czechoslovak civil overflights of the American Zone.

5. Yugoslav opposition to Balkan Peace Observation Commission continues:

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In a recent conversation with a member of the US UN delegation, Yugoslav delegate Bebler reiterated his government's present opposition to the establishment of a Peace Observation Commission limited to the Balkans. He stated

that such action might alarm the Yugoslav people and would seem unnecessary since Satellite pressures on Yugoslavia have not increased significantly during recent months. Bebler expressed interest, however, in a US suggestion to expedite rapid UN action in case a menacing situation should develop. He will seek instructions on this from Belgrade and also will inquire into Belgrade's latest views on a Peace Observation Commission limited to the Balkans. During the conversation, Bebler indicated that Yugoslavia, in the event of Satellite aggression, intends immediately to: (a) call upon foreign military attaches in Belgrade to conduct an inquiry into the cause and nature of the Satellite aggression, and (b) request UN action in accordance with the procedure established by the General Assembly resolution of 17 November 1950.

Comment: Bebler's views indicate that there has been no change in Yugoslav plans in the past two months and that the Yugoslav Government has no intention of bringing its case before the UN prior to the autumn session of the General Assembly

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WESTERN EUROPE

6. British Cabinet defers decision on Chinese embargo:

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The British Cabinet has deferred action to prohibit at this time the transport to Communist China in British ships of items embargoed under the 18 May UN Resolution. The Foreign Office

states, however, that the Cabinet will be willing to consider such a shipping prohibition if a plan for concerted action is proposed in the Additional Measures Committee of the UN.

Comment: The Foreign Office statement suggests that the UK may be willing to implement the UN shipping embargo policy, but is wary of putting the extensive British shipping in Far Eastern waters at a competitive disadvantage by proceeding unilaterally. The UK may also believe that too ready acceptance of the minimal action contemplated under the UN Resolution would tend to commit the UK to a general shipping embargo, such as the one the US has informally urged and officials in the British Admiralty have reportedly recommended.

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